

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

NEA-10 ARA-06 AF-06 EA-07 /122 W
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LIMITED OFFICIAL USE SECTION 1 OF 2 OECD PARIS 1167

PASS TREASURY FOR ASSISTANT SECRETARY PARSKY, CEA AND
FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, OECD

SUBJECT: SECRETARIAT'S PAPER FOR EPC'S TEMPORARY
WORKING PARTY ON OPEC CURRENT BALANCE TO 1985

REF: OECD PARIS 1001

1. AS NOTED IN REFTEL, THE AGENDA FOR THE TEMPORARY
WORKING PARTY'S MEETING ON JANUARY 20-21 MENTIONS
UNDER ITEM 3, NOTE BY THE SECRETARIAT, NO. CPE/TWP(76)1.
THIS DOCUMENT, ISSUED JANUARY 7, ENTITLED "THE OPEC
CURRENT BALANCE TO 1985", WILL BE HAND CARRIED TO
LISTER, TREASURY, AND CLARK, EUR/RPE, BY GERALD ROSEN,
L/EB, TRAVELLING JANUARY 15.

2. IN VIEW OF IMMINENCE TWP MEETING, THERE IS REPRODUCED
BELOW SUMMARY AND CONCLUSIONS SECTION OF CPE/TWP(76)-,
AS FOLLOWS:

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BEGIN TEXT

SUMMARY AND CONCLUSIONS

1. THIS NOTE LOOKS AT THE MAIN FEATURES WHICH WILL DETERMINE THE OPEC CURRENT BALANCE OVER THE NEXT DECADE: EXPORT REVENUES, LIKELY EXPENDITURE ON IMPORTS, AND THE POSSIBLE EVOLUTION OF DEMAND FOR SERVICES, INVESTMENT INCOME, AND ASSISTANCE TO NON-OIL DEVELOPING COUNTRIES. THE NOTE DRAWS BOTH ON THE MOST RECENT REVISIONS BY THE IEA OF PROJECTED OPEC EXPORTS(1)

FOOTNOTE (1) THE IEA IS NOW IN THE PROCESS OF REVISING THE PROJECTIONS OF THE LONG-TERM ENERGY ASSESSMENT (LTEA) PUBLISHED IN ENERGY PROSPECTS TO 1985, PARIS 1974. THE PROJECTIONS HERE TAKE ACCOUNT OF THE MOST RECENT STATE OF THIS WORK WHICH, HOWEVER, IS STILL IN PROGRESS.

AND THE DETAILED ANALYSIS OF OPEC IMPORTS BY THE UNITED STATES DELEGATION SUBMITTED TO THE WORKING PARTY IN CPE/TWP(75)7.

2. BROADLY, THE ANALYSIS POINTS TO TWO KINDS OF OPEC COUNTRIES, THOSE LIKELY TO BE SPENDING ALL THEIR EXPORT REVENUES IN THE NOT TOO DISTANT FUTURE (HIGH ABSORBERS)(2)

FOOTNOTE (2) ALGERIA, IRAN, IRAQ, NIGERIA, INDONESIA, ECUADOR, VENEZUELA, GABON.

AND THOSE WHOSE IMPORT DEMAND IS LIKELY TO REMAIN BELOW EXPORT REVENUES (LOW ABSORBERS)(3).

FOOTNOTE (3) SAUDI ARABIA, KUWAIT, THE GULF STATES AND LIBYA.

FOR THE HIGH ABSORBERS, THE MAIN QUESTIONS ARE HOW RAPIDLY THEY WILL GO INTO DEFICIT AND - GIVEN THE MOMENTUM OF DEVELOPMENT EXPENDITURE UNDER WAY - HOW THEY WILL BE ABLE TO KEEP IMPORTS IN LINE WITH FINANCING LIMITED OFFICIAL USE

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POSSIBILITIES. FOR LOW ABSORBERS, THE PRINCIPAL QUESTION IS THE LIKELY SIZE OF THEIR SURPLUSES AND THE BUILD-UP OF RELATED INVESTMENT INCOME.

(A) ASSUMPTIONS

3. THE CENTRAL PROJECTION GIVEN BELOW IS BASED ON CERTAIN ASSUMPTIONS WHICH ARE OF A "TECHNICAL" NATURE

AND SHOULD NOT NECESSARILY BE REGARDED AS THE
SECRETARIAT'S ASSESSMENT OF THE MOST LIKELY OUTCOME.
THE MAIN ASSUMPTIONS ARE:

(I) A CONSTANT RELATIVE PRICE OF OIL FROM 1976 -AN
ARBITRARY TECHNICAL ASSUMPTION WHICH MAKES IT EASIER
TO APPLY LTEA PROJECTIONS;

(II) A MEDIUM-TERM GROWTH OF OECD REAL GNP OF 5 PER CENT
PER ANNUM FROM 1976 TO 1980 AND 4-5 PERCENT TO 1985;

(III) BECAUSE OF THE NEED TO FINANCE EXPANDING
DEVELOPMENT PLANS, THE PROPORTION OF TOTAL OPEC OIL
PRODUCTION ACCOUNTED FOR BY HIGH ABSORBERS, ABOUT HALF
IN 1974, WILL RISE TO 55 PERCENT BY 1980 AND TO CLOSE
TO 60 PER CENT BY 1985, IT BEING ASSUMED THAT THIS
WILL BE ACCEPTABLE TO LOW ABSORBERS;

(IV) OPEC ASSISTANCE TO NON-OIL DEVELOPING COUNTRIES,
WHICH ROSE VERY RAPIDLY DURING THE 1974/1975 PERIOD
MAY REMAIN BROADLY AT ITS 1976 LEVEL OR EVEN FALL
SLIGHTLY OVER THE MEDIUM-TERM (IN 1975 PRICES).

(B) CONCLUSIONS

(I) IF, AS SUGGESTED BY THE LTEA, EXPORTS OF OPEC OIL
RISE FROM 29.4 MILLION BPD IN 1974 TO 31-32 MILLION
BPD BY 1980 AND 36-37 MILLION BPD BY 1985, OPEC EXPORT

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EARNINGS INCLUDING NON-OIL EXPORTS MAY
RISE FROM \$133 BILLION IN 1975 TO \$140 BILLION (IN 1975
DOLLARS) IN 1980 AND TO \$167-170 BILLION IN 1985.

(II) THE VOLUME OF OPEC IMPORTS MAY DEVELOP AS FOLLOWS
(PER CENT INCREASE PER ANNUM:

TOTAL	HIGH ABSORBERS	LOW ABSORBERS
1973-1975 42	43	40
1975-1980 12-1/2	13	11
1980-1985 8	6	13

(III) THE OPEC CURRENT SURPLUS, \$40-45 BILLION IN 1975,
MAY FALL TO SOME \$30 BILLION (IN 1975 DOLLARS) BY 1980
AND COULD BE CLOSE TO ZERO BY 1985.

(IV) THE COMULATIVE OPEC CURRENT SURPLUS, 1974-80, MAY BE
OF THE ORDER OF \$250 BILLION IN 1975 DOLLARS, OR \$200-250
IN 1974 DOLLARS, AND THEREAFTER MAY HARDLY CHANGE TO 1985.
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(V) GIVEN THE LIKELIHOOD THAT OIL-PRODUCING
COUNTRIES (PARTICULARLY THE HIGH ABSORBERS) WILL ADJUST
THEIR IMPORTS TO CHANGES IN THEIR REVENUES, PROJECTIONS
OF THE OPEC CURRENT BALANCE ARE NOT, IN MOST CASES,
VERY SENSITIVE TO ALTERNATIVE HIGHER ASSUMPTIONS
CONCERNING REVENUES. MOST OF THE LATERNATIVE
ASSUMPTIONS CONSIDERED BELOW PRODUCE A CUMULATIVE SURPLUS
IN 1980 WITHIN \$10-20 BILLION OF THE BASE PROJECTION
AND HAVE RELATIVELY SMALL EFFECTS ON THE "DRAIN" ON
RESOURCES OF OECD COUNTRIES. HOWEVER, IF THE RELATIVE
PRICE OF OIL FELL, THE CUMULATIVE SURPLUS MIGHT BE
MUCH LOWER: A \$3 (25 PER CENT) DECLINE IN THE RELATIVE
PRICE MIGHT REDUCE THE CUMULATIVE SURPLUS BY SOME \$80
BILLION; IN THIS CASE OPEC IMPORT GROWTH WOULD BE ABOUT
3 PERCENTAGE POINTS LOWER (PER ANNUM)
THAN IN THE CENTRAL PROJECTION, WHICH WOULD AFFECT
OECD EXPORT GROWTH BY ABOUT 1/2 PERCENTAGE POINT.

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